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C O N F I D E N T I A L SECTION 01 OF 02 MANILA 001991

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TAGS: [PREL](#) [PBTS](#) [EPET](#) [CH](#) [VM](#) [RP](#)
SUBJECT: NEXT STEP IN THE TRIPARTITE SEISMIC SURVEY IN
SOUTH CHINA SEA

REF: A. 06 MANILA 04848
[1](#)B. 04 MANILA 05826

Classified By: Pol/C Scott Bellard, reasons 1.4(b) and (d)

[1](#)1. (C) Summary: Phase II should begin in July for the tripartite Marine Seismic Undertaking in the South China Sea. Philippine authorities had temporarily delayed authorization as the government decided whether to approve a Service Contract with a UK-based oil company in an area within the boundaries of the disputed zone. Pushed by the British government but actively opposed by the Chinese, the Service Contract appears still under consideration by the Philippine government. This wrinkle highlights the inherent tensions between forging ahead with lucrative private contracts on a national basis and promoting the kind of regional cooperation described in the 2002 Declaration on the Conduct of Parties in the South China Sea between ASEAN and the PRC. End summary.

Beginning Phase II

[1](#)2. (C) The Joint Marine Seismic Undertaking for hydrocarbon deposits in the South China Sea among the Philippines, China, and Vietnam under a 2004 Tripartite Agreement (ref b) has now received authorization by the Philippine government to proceed, according to Philippine National Oil Company (PNOC) Exploration Manager Raymundo Savella. Savella stated that China and Vietnam had been "gung ho" to begin Phase II of the joint survey since January 2007, but that the Philippine Department of Energy (DOE) had withheld authorization until June 15.

[1](#)3. (C) Savella confirmed that officials of the three national oil companies had basically completed the interpretation of data acquired under Phase I (ref a) in January, at which time they identified promising areas for a follow-up survey under Phase II. Savella expressed relief that his government's authorization had come in time to take advantage of the July availability of a Chinese survey vessel.

Sidestepping a Snag

[1](#)4. (C) According Sevilla, the DOE had initially withheld authorization for Phase II because it was considering whether to approve a new Service Contract with Forum Energy, a UK-based oil company. The Service Contract would confer exclusive rights, including appraisal drilling, to a block

called Reed Bank within the boundaries of the Joint Marine Seismic Undertaking zone.

15. (C) Forum Energy had already been operating in Reed Bank but only under a Geophysical Survey Exploration Contract (GSEC) prior to the Tripartite Agreement. Sevilla noted that PNOG had assured China in the past that Forum Energy's GSEC would be allowed to expire; instead, since 2005, DOE twice extended it. Forum Energy has reportedly invested several million dollars to acquire data, and has apparently discovered a natural gas deposit in excess of 3.5 trillion cubic feet.

16. (C) According to a senior British Embassy source, Forum Energy officials "strenuously" lobbied the Philippine government to convert the company's GSEC to a Service Contract, and the Embassy also advocated the company's bid with the DOE, while avoiding any reference to the Tripartite Agreement, which at least one contingent within the Philippine government has always considered as "rash." While Executive Secretary Ermita reportedly told Forum Energy that a decision would be "forthcoming," Department of Foreign Affairs China Division Daniel Espiritu told poloff that it was "impossible" the Philippine Government would ever approve this new contract, due to the possible international implications. Separately, DOE Undersecretary Guillermo Balce confirmed to econoff that the Service Contract was still open for consideration, but its approval was unlikely until resolution of a "diplomatic impasse" with China.

China's Objection

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17. (C) PNOG's Savella cited a recent Tripartite meeting at which a Chinese representative referred to the Forum Energy contract and pointed out to his Filipino counterparts: "If you can do it, why can't we?" Savella also claimed that the recently-departed Chinese Ambassador had lodged his objection to the Service Contract with the Philippine Energy Secretary.

The British Embassy source also noted "hearsay" that Chinese Premier Wen Jiabao had even raised the issue with President Arroyo during his visit to the Philippines in January.

Comment

18. (C) This early test to the Joint Marine Seismic Undertaking underscores the inherent tensions between upholding the principles and spirit of the 2002 Declaration on the Conduct of Parties in the South China Sea between ASEAN and the PRC along with preserving the Tripartite Agreement -- which President Arroyo publicly heralded as a symbol of international cooperation in the South China Sea -- and lure of unilaterally pursuing potentially lucrative commercial deals in the disputed area. For the time being at least, the former policy priority has prevailed, again.

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